



# LIMITED PURPOSE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 4, 2011

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Capital One Bank (USA), N. A.  
Charter Number: 24828

4851 Cox Road  
Glen Allen, Virginia 23060

Office of the Comptroller of the Currency  
250 E Street, SW  
Washington, DC 20219

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S Community Reinvestment Act (CRA) RATING:**

**This institution is rated Satisfactory.**

The conclusions for the three rating criteria are:

- Capital One Bank (USA), N. A., (COBNA) demonstrates a high level of qualified investments, community development services, and community development lending.
- The bank demonstrates extensive use of complex or innovative qualified investments, community development services, and community development loans.
- The bank demonstrates excellent responsiveness to community development needs in its assessment area (AA).
- During a review of the bank's credit card program, OCC became aware of issues that resulted in a violation of a federal law. The violation lowered the bank's overall CRA rating from "Outstanding" to "Satisfactory."

### **Scope of the Examination**

In evaluating the bank's performance under the CRA, we reviewed community development activities from March 1, 2008 through December 31, 2010. We reviewed the level and nature of qualified investments, community development lending, and community development services. At the bank's request, we also considered qualified investments, community development lending, and community development services provided by its affiliates. The prior performance evaluation by the Federal Reserve Bank of Richmond, dated September 4, 2007, rated the bank's performance Outstanding.

The bank has adequately addressed the needs of its AA, and therefore qualified investments, community development loans, and services outside of its AA were considered in evaluating its performance.

### **Description of Institution**

COBNA, located in Glen Allen, Virginia, is a wholly owned subsidiary of Capital One Financial Corporation (COF), which is headquartered in McLean, Virginia. COBNA converted to a national bank on March 1, 2008. The bank offers primarily credit card products to consumers and small businesses. COBNA also has foreign subsidiaries that issue credit cards in Canada and the United Kingdom. The foreign subsidiaries do not have a significant impact on the bank's capacity for community reinvestment. As of December 31, 2010, the bank held total assets of \$72 billion, which is 36% of COF's consolidated assets. As of year-end 2010, COBNA was the fifth largest issuer of credit cards in the U.S.

The bank was initially designated for CRA evaluation as limited-purpose in April 1996 by the Federal Reserve Bank of Richmond. In July 2004, COF's application to become a bank holding company was approved by the Board of Governors of the Federal Reserve after the

bank's charter was amended to become a full-service bank. However, the bank did not substantially deviate from its primary business strategy of issuing credit cards. COBNA was designated a limited purpose bank for CRA evaluation by the OCC on February 28, 2008, just prior to its March 1, 2008 conversion to a national bank. This is the bank's first CRA evaluation since converting to a national bank.

There are no known legal or financial factors that impede COBNA's ability to meet the credit needs of its AA.

**Table 1: Financial Information (000s)**

	<b>Year-end 2008</b>	<b>Year-end 2009</b>	<b>Year-end 2010</b>	<b>Average for Evaluation Period</b>
<b>Tier 1 Capital</b>	\$4,545,912	\$5,097,383	\$5,828,984	\$5,157,426
<b>Total Income</b>	\$9,356,062	\$7,518,083	\$11,664,528	\$9,512,891
<b>Net Operating Income</b>	\$1,159,956	\$865,570	\$2,277,024	\$1,434,183
<b>Total Assets</b>	\$40,869,274	\$37,991,398	\$72,203,064	\$50,354,578
<b>Pass-Through Receivables</b>	\$64,201,841	\$59,567,074	\$51,779,846	\$58,516,254

Source: Consolidated Report of Condition and Income and bank reported data. Annualized data reported.

## Description of Assessment Area

COBNA's AA includes all of Henrico County and the City of Richmond, Virginia. The AA is located in the east-central portion of the state and is part of the Richmond Metropolitan Statistical Area (MSA). The AA includes 125 census tracts and a population of 460,900. The 2010 HUD adjusted median family income for the MSA is \$73,900. Affordable rental housing is a key need in the AA.

The leading industries in the MSA include information technology and major semiconductor manufacturing, chemical and related manufacturing, and tobacco products. As of December 31, 2010, the unemployment rate for the AA is 7.3%, which is below the 9.1% national rate. Demographic data for Richmond/Henrico County AA is presented in the table below:

**Table 2: Assessment Area Description**

	<b>Number</b>	<b>Low %</b>	<b>Moderate %</b>	<b>Middle %</b>	<b>Upper %</b>
<b>Tracts</b>	125	14.40	25.60	38.40	21.60
<b>Families</b>	114,222	23.88*	18.30*	21.49*	36.33*
<b>Businesses</b>	39,843	14.92**	18.87**	35.81**	30.40**

Source: Demographic Data - 2000 U.S. Census, 2009 Dun & Bradstreet.

\*Represents families by income level. \*\*Represents businesses by income level of census tract.

During this evaluation, we reviewed documentation of contacts with local community groups over the past four years. Based on the results of the meetings, and driven by the affects of a severe recession, the identified community needs in the assessment area included the following:

- Affordable and traditional housing for low- to- moderate income (LMI) families
- Neighborhood revitalization

- Financial literacy education for youth in public schools
- Foreclosure prevention

The time period covered by this evaluation was challenging in terms of circumstances affecting the economy. By late 2007, deterioration in housing prices began to occur with regularity and the economy began sliding towards recession. These conditions influenced the number of businesses closing and leaving neighborhoods with unoccupied buildings. Economic challenges also affected more traditional avenues of community development. Prior to the evaluation period there was intense competition and high demand for qualified investments and community development loans. However, early in the evaluation period, the size of the market had started to decline as many investors retreated because of an inability to use tax credits due to declining corporate earnings. The resulting shortage of investors led to falling prices and, consequently, less equity contributed to transactions. This situation was compounded by declining availability of subsidy funds from state and local governments.

COBNA's community development strategy is to target opportunities first within its AA, then within the state of Virginia, the surrounding states, the northeast region and finally national opportunities. There were a limited number of qualified investment and community development loan opportunities available in the AA during the review period. However, there was still a great need for qualified community development investments and lending in the Gulf Coast region following Hurricanes Katrina and Rita. Therefore, they focused on the community development opportunities in that region.

## **Conclusions About Performance**

### **Summary**

COBNA provides a high level of qualified investments and community development services in relation to its capacity and opportunities in the AA. During the current evaluation period, \$27.6 million in qualified investments were provided to the AA. An additional \$287 million in qualified investments were provided outside the AA. In addition, COBNA employees provided services to 36 community development organizations within the AA.

COBNA demonstrates extensive use of complex community development by providing numerous investments in low income housing tax credits (LIHTCs). Several of these LIHTC projects require coordination among state and local government agencies, non-profit organizations, other investors, and the bank. In addition, the bank provides financial and technical expertise to various organizations.

COBNA demonstrates excellent responsiveness to the community development needs of the AA. The bank invested \$25.5 million in five LIHTC developments, creating 654 units of affordable housing for LMI persons in the AA. Additionally, COBNA invested in \$160 million in various LIHTC developments statewide (outside of the AA).

### **Qualified Investments**

Qualified investments totaled \$92.7 million in the AA during the evaluation period. As the bank adequately addressed the needs of its AA, we considered an additional \$435 million in

qualified investments made outside the AA. The following tables show qualified investment activity as well as total qualified investments as a percentage of the bank's average capital, total income and pass-through receivables.

**Table 3a: Qualified Investment Activity (000s)**

	<b>Benefits AA</b>	<b>Outside AA</b>	<b>Totals</b>
<b>Originated Investments</b>	\$27,631	\$287,457	\$315,088
<b>Originated Grants</b>	\$ 4,647	\$ 17,698	\$ 22,345
<b>Prior-Period Investments that Remain Outstanding</b>	\$60,465	\$129,381	\$189,846
<b>Total Qualified Investments</b>	\$92,743	\$434,536	\$527,279

**Table 4a: Qualified Investment Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	1.8	8.4	10.2
<b>Total Investments/Average Total Income</b>	1.0	4.6	5.5
<b>Total Investments/Average Pass-Through Receivables</b>	0.2	0.7	0.9

The most significant qualified investments include the following:

- A \$7.3 million LIHTC investment to help finance redevelopment of a 115 unit affordable rental property in North Richmond for LMI households. Multiple investors were brought in to complete the project.
- Current period investments totaling \$7.4 million and prior period investments totaling \$57.8 million in Small Business Investment Corporations (SBICs), which promote economic development. This amount includes a September 2008 investment that provided \$2.1 million to a Richmond, Virginia-based small business.
- Grants totaling \$200 thousand to a qualified community development organization. The funds were used to provide training and technical assistance to existing and developing tutoring programs in Richmond City Public Schools, where a majority of the students are LMI.
- Grants totaling \$391 thousand to an organization targeting affordable housing and economic revitalization of LMI neighborhoods in the City of Richmond.

## Community Development Lending

COBNA did not originate any community development loans in its AA during the evaluation period. However, since COBNA adequately addressed the needs of its AA through investments, grants, and community service, we considered \$226 million in community development loans made outside the AA, which created or rehabilitated over 600 affordable housing units across three states. The following table shows total community development loans as a percentage of the bank's average capital, total income and pass-through receivables.

**Table 5a: Community Development Lending Percentages**

	<b>Benefits AA (%)</b>	<b>Outside AA (%)</b>	<b>Total (%)</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	0	4.4	4.4
<b>Total CD Lending/Average Total Income</b>	0	2.4	2.4
<b>Total CD Lending/ Average Pass-Through Receivables</b>	0	0.4	0.4

The most significant qualified loan includes the following:

- A total of \$111 million in New Market Tax Credit lending in Mississippi that support revitalization / stabilization of LMI geographies and designated disaster areas, economic development, and affordable housing. Included in this total were:
  - \$30 million in financing to support expansion of the Jeff Anderson Regional Medical Center in Meridian, MS
  - \$71 million in financing to support expansion of the historic King Edward hotel in Jackson, MS
  - \$10 million in financing to Habitat for Humanity of the MS Gulf Coast to support affordable housing for LMI families

## Community Development Services

Employees actively provided their services to 36 community development organizations and programs that benefit LMI individuals, families and communities in the AA and 17 organizations outside the AA. Bank employee activities are highly responsive to community development needs through involvement on boards and committees of affordable housing and community service organizations, often serving in leadership roles, delivering financial literacy seminars and credit counseling, and providing other financial services. During the exam period, bank personnel provided approximately 5,000 hours of participation as members of boards of directors and by providing financial and technical expertise. Approximately 90% of the hours were within the AA. The following are examples of significant community development services:

- A senior bank executive served on the Board of Directors and as the Secretary of a nonprofit focused on affordable housing in the bank's AA. Additionally, several bank employees provided nearly 400 hours of qualified service by helping to improve the organization's accounting and financial reporting systems, project management, and long-term financial plan.
- A senior bank executive served as the Chairman of the Board of Directors of a nonprofit that focuses on affordable housing in the bank's AA.
- A bank employee served as First Vice Chairman of the Board and as a member of the executive, strategic planning, and finance committees of an organization that focuses on affordable housing in the bank's AA. The organization helps LMI individuals and families gain the knowledge and financial skills they need to become successful homeowners and tenants.
- Bank employees provided a total of 3,400 hours of financial education to schools within the bank's AA through the Junior Achievement (JA) Finance Park and "JA in a Day" programs.
- A senior bank executive served as a member of the Board of Directors and Audit Committee of the Board of the Heart of America Foundation. The organization focuses on community services to LMI individuals.
- A senior bank executive served on the Board of Directors and the Finance Committee of the Corporation for Enterprise Development (CFED), a national nonprofit that focuses on economic development. CFED works at the local, state, and federal levels to expand economic opportunity, especially for low-income and disadvantaged people and communities, by helping Americans start and grow businesses, go to college, own a home, and save for their families' economic futures.

## **Fair Lending or Other Illegal Credit Practices Review**

We determined that COBNA engaged in practices that violated a federal law during a portion of the period covered by this evaluation. These practices relate to credit card disclosures for a specific add-on product offered between January 1, 2004 and April 2010. COBNA self-identified this issue in early 2010 and provided restitution to affected consumers by June 2010. COBNA's compliance and monitoring programs have been enhanced and new reporting has been developed and implemented for management's oversight of sales and servicing of the product. The violation adversely affected the overall CRA rating.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Assessment Area (AA):** A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

**Benefit to Assessment Area:** A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity has the potential to benefit the assessment area and is located in the broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

**CEBA:** Competitive Equality Banking Act of 1987, which permitted corporations to form limited-purpose credit card banks, whose operations are restricted to credit card activities, without the corporation becoming subject to the limitations of a "bank holding company" under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

**Census Tract (CT):** Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

**Community Development (CD):** Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301)) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;



- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Limited Purpose Institution:** An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

**Median Family Income (MFI):** The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Net Operating Income:** As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

**Pass-Through Receivables:** Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

**Total Assets:** Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets"*]

**Total Income:** From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income"*]